

Message Text

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PAGE 01 TOKYO 00195 071303Z

44

ACTION EA-09

INFO OCT-01 EUR-12 ISO-00 EAE-00 CIAE-00 DODE-00 PM-04

H-02 INR-07 L-03 NSAE-00 NSC-05 PA-02 PRS-01 SP-02

SS-15 USIA-15 AID-05 COME-00 EB-07 FRB-01 XMB-04

OPIC-06 CIEP-02 LAB-04 SIL-01 OMB-01 /109 W

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P R 070915Z JAN 76

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC PRIORITY 5898

/DEPARTMENT OF TREASURY WASHDC

INFO AMEMBASSY BONN

AMEMBASSY LONDON WIQE

AMEMBASSY PARIS

AMEMBASSY ROME

USMISSION OECD PARIS

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PASS FEDERAL RESERVE, LABOR AND EXIM BANK

E.O. 11652: N/A

TAGS: ECON, EFIN, ELAB, JA

SUBJECT: FINANCIAL AND ECONOMIC DEVELOPMENTS - WEEK OF DEC 31-JAN 7

1. BUDGET WAS APPROVED BY CABINET ON DEC 31 (SEE TOKYO 18,284). IT WILL BE PRESENTED TO DIET ABOUT JAN 20 AND P.M. MIKI IS CALLING FOR QUICK PASSAGE. THERE ARE SOME INDICATIONS THAT NEW PUBLIC WORKS CONTRACTING MAY BE ACCELERATED IN THE FIRST HALF OF NEXT FISCAL YEAR (APRIL-SEPT), TO GIVE EARLY STIMULUS TO ECONOMY. WHILE BUSINESS LEADERS WOULD PREFER STRONGER REFLATIONARY MEASURES BE TAKEN, THEY APPEAR SATISFIED THAT POLICIES ADOPTED BY THE CABINET WILL RESULT IN CONTINUING SLOW REVIVAL, BUT BELIEVE "FULL RECOVERY" WILL BE DELAYED UNTIL NEXT AUTUMN.

2. JAPAN'S BUSINESS LEADERS PREDICT THAT "ECONOMIC

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PAGE 02 TOKYO 00195 071303Z

RECOVERY" WILL BE DELAYED UNTIL AUTUMN 1976. SPEAKING

AT A JOINT PRESS CONFERENCE, CHIEFS OF THE NATION'S TOP FOUR BUSINESS ORGANIZATIONS, INCLUDING FEDERATION OF ECONOMIC ORGANIZATIONS (KEIDANREN) AND JAPAN CHAMBER OF COMMERCE AND INDUSTRY, EXPRESSED CONFIDENCE THAT PROBLEMS CURRENTLY PLAGUING JAPAN'S RECOVERY COULD BE GRADUALLY OVERCOME. THE LEADERS NOTED POSSIBLE DIFFICULTIES WHICH COULD ARISE FROM THE LARGE AMOUNT OF GOVERNMENT BONDS TO BE ISSUED EARLY THIS YEAR AND DEMANDS FOR LARGE WAGE INCREASES IN THE SPRING LABOR OFFENSIVE. THEY REMAINED OPTIMISTIC, HOWEVER, THAT THESE DIFFICULTIES COULD BE SURMOUNTED AND THAT ECONOMIC ACTIVITY WOULD AGAIN REACH HIGH LEVELS IN THE LATTER HALF OF THIS YEAR SO THAT "RECOVERY" WILL BE ACHIEVED.

3. THE AVERAGE PROPENSITY TO SAVE FELL IN OCT (JEI 363) AS CONSUMPTION OF FOOD, CLOTHING AND TRAVEL ROSE SHARPLY. THE OCT LEVEL, WHICH WAS MORE THAN 3 PERCENTAGE POINTS BELOW THAT OF THE PREVIOUS MONTH, WAS THE SECOND LOWEST OF THE CURRENT YEAR. MOREOVER, THE OCT FIGURE IS BELOW THE 22.5 PERCENT AVERAGE PROPENSITY-TO-SAVE RECORDED IN THE PRE-RECESSION YEAR OF 1973.

AVERAGE PROPENSITY TO SAVE
(PERCENT)

AUG	24.5
SEPT	25.3
OCT	22.1

4. INDEX OF OVERTIME IN MANUFACTURING (JEI 401) ROSE 1.7 PERCENT IN NOV TO REACH HIGHEST LEVEL OF THE YEAR. IT WAS THE FIRST TIME SINCE CURRENT DOWNTURN IN INDUSTRIAL PRODUCTION BEGAN IN NOV 1973, THAT MANUFACTURING OVERTIME REGAINED THE YEAR-EARLIER LEVEL. NEVERTHELESS, IT REMAINS FAR BELOW THE 1973 PEAK OF 94.1

OVERTIME IN MANUFACTURING
INDEX (1970-100) PERCENT INCREASE

SEPT	51.1	1.3
OCT	51.6	1.0

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PAGE 03 TOKYO 00195 071303Z

NOV	52.5	1.7
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5. GOJ BOND YIELDS DECLINED IN DEC, REVERSING RISE OF THE PREVIOUS MONTH. THE DECLINE MAY REFLECT MOVES BY BOJ TO EASE MONEY MARKET CONDITIONS WHICH NORMALLY TEND TO TIGHTEN TOWARD YEAR END. YIELDS MAY DECLINE FURTHER IN COMING MONTHS. BUSINESS LEADERS, INCLUDING TAKESHI SAKURADA, HEAD OF POWERFUL JAPAN FEDERATION OF

EMPLOYERS ASSOCIATIONS (NIKKEIREN), HAVE CALLED FOR A
ADDITIONAL REDUCTIONS IN INTEREST RATES TO IMPROVE
PACE OF ECONOMIC RECOVERY.

GOJ BONDS, YIELD TO MATURITY
(YIELD IN PERCENT; AT MONTH-END)

OCT	9.096
NOV	9.169
DEC	9.024

6. MOF WILL APPARENTLY RELAX POLICY ANNOUNCED IN
LATE 1974 (TOKYO A-756, 12/30/74), OF ESTABLISHING A
20-PERCENT CAPITAL LOAN LIMITATION AFTER 5 YEARS, IN
ORDER TO MEET HEAVY FINANCING DEMANDS FOR (1) EXPORTS
OF INDUSTRIAL PLANTS, (2) ELECTRIC POWER COMPANY INVEST-
MENTS, AND (3) JAPAN'S OIL STORAGE PROGRAM. MOF WILL
RELAX RESTRICTIONS ON INCREASED LENDING BY CITY BANKS
TO TRADING COMPANIES SO AS TO PROMOTE JAPAN'S EXPORTS
AND ENABLE TRADING COMPANIES TO PROVIDE CREDIT TO
SMALL, HIGH-RISK ENTERPRISES WHICH HAVE DIFFICULTY IN
BORROWING DIRECTLY FROM BANKS.

7. AMERICAN BANKERS CONFIRM BOJ HAS RECENTLY IN-
CREASED SWAP LINES OF FOREIGN BANKS BY AGGREGATE OF
\$300 MIL TO \$2,300 MIL. THOSE BANKS THAT HAVE FULLY
UTILIZED THEIR EXISTING SWAPS AND ARE EAGER TO BRING
MORE DOLLARS INTO JAPAN WERE APPARENTLY GIVEN BIGGEST
INCREASES. COST OF EURODOLLAR FUNDING, PLUS SWAP COVER,
APPARENTLY ATTRACTIVE AT ONE PERCENT BELOW LOCAL FUND-
ING IN BILL DISCOUNT MARKET AT 8-3/8 PERCENT. MOST
BANKERS APPEAR CAUTIOUS ABOUT DRAWING HEAVILY ON THEIR
INCREASED SWAP LINES, RECALLING VERY HIGH COST OF FOR-
WARD COVER IN LATE 1973-EARLY 1974, DIFFICULTY OF GET-
TING BOJ PERMISSION TO REDUCE SWAP LINE, AND EXPECTA-
UNCLASSIFIED

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PAGE 04 TOKYO 00195 071303Z

TION THAT LOCAL FUNDING IN BILL DISCOUNT MARKET WILL
PROBABLY DECLINE LATER IN JAN. NEVERTHELESS, THEY ALSO
REOGNIZE BOJ CAN WITHHOLD BORROWING PRIVILEGE IN BILL
DISCOUNT MARKET IF NEW SWAP LINES REMAIN UNUTILIZED.
BANKER ALSO REPORTS THAT MONTHLY ALLOCATION OF IMPACT
LOANS BEING RAISED FROM \$150 MIL TO \$175-180 LEVEL.
THERE HAS BEEN SOME FALLOFF IN DEMAND EXCEPT FROM STEEL
COMPANIES WHO NEED TO FINANCE THEIR PRESENT LOSSES AND
BY MACHINERY EXPORTERS WHO USE LOANS AS HEDGE AGAINST
DOLLAR EXPORT CREDITS (I.E., FOREIGN CURRENCY ASSET
OFFSET BY FOREIGN CURRENCY LIABILITY).

8. JAPAN'S FOREIGN EXCHANGE RESERVES WERE \$12,815
MIL AS OF DEC 31, 1975, ACCORDING TO MOF. THAT REPRE-
SENTS A DECLINE OF \$143 MIL IN DEC AND DROP OF \$703

MIL FOR CY 1975.

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